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SUBJECT: DEFENSE SECRETARY CRUZ DETAILS PLANS TO IMPROVE THE AFP

Classified By: (U) Political Officer Paul O'Friel
for reasons 1.4(b) and (d).

11. (C) Summary. Defense Secretary Cruz's multi-faceted reform agenda includes establishing new budget and procurement procedures, buying counterinsurgency equipment, revamping training, and restructuring Armed Forces of the Philippines (AFP) intelligence services. The GRP hopes an eventual peace deal with the Moro Islamic Liberation Front will enable it to use its improved combat capabilities to crush the Communist Party of the Philippines/New People's Army (CPP/NPA) and defeat the Abu Sayyaf Group (ASG) and Jemaah Islamiyah (JI) terrorists. Cruz is grateful for US anti-terrorism assistance, and welcomes additional US help in professionalizing the AFP's intelligence cadres. With some notable budget reforms and acquisition successes already under his belt, Cruz appears poised to bring about a significant transformation of the AFP. However, the GRP's financial constraints may impact Cruz's ability to get the AFP the equipment it needs. End Summary.

ESTABLISHING A BUDGET

12. (SBU) During an August 17 courtesy call by Charge d'Affaires Johnson, Secretary of National Defense Avelino Cruz reviewed his plans to restructure the Armed Forces of the Philippines (AFP). Cruz said he had broken the 46 billion peso (approximately \$822 million) AFP annual budget into seven clearly defined mission areas. In order better to justify the budget to Congress (and to the Secretary of Budget and Management), the budget makes clear specific needs, including 400 million pesos (\$7.15 million) to cover increased fuel costs, 3.3 billion pesos (\$59 million) for counterinsurgency equipment, and 3 billion pesos (\$53.6 million) for basic infrastructure upgrades for villages in rebel-controlled areas.

IMPROVING ACQUISITION

13. (SBU) Cruz explained how improvements to the acquisition system are now taking effect. To improve transparency, representatives from the Catholic Bishops' Conference of the Philippines (CBCP) and the Makati Business Club now have an oversight role in the procurement process. Suppliers are only permitted to talk to the bids and awards committee in an open forum to avoid any appearance of favoritism or conflict of interest.

14. (SBU) Cruz said he planned to create a corps of defense acquisition specialists composed of 55 civilians and 55 military officers. "I told my service chiefs that I want quality officers assigned to acquisition and that the quality of the equipment they would get would be directly proportional to the quality of acquisition officers they supplied," Cruz stated. Charge commended Cruz for his budget initiatives, noting that the United States strongly supported the Philippine Defense Reform effort.

BUYING NEW EQUIPMENT

15. (C) Cruz said the Cabinet had just accepted in principle his 18-year, 210 billion peso (\$3.75 billion) plan to procure new equipment for the AFP. The first phase would concentrate exclusively on acquiring counterinsurgency equipment, including radios, flak vests, squad automatic weapons, patrol boats, and, helicopters. "This is basic equipment, not modernization," Cruz commented, noting that LTG Romeo Dominguez, the commander of North Luzon Command (an area of intense Communist insurgent activity) had reported that his troops needed to replace 30-percent of their rifle barrels. "We're almost building from scratch," Cruz noted.

REVAMPING TRAINING

16. (C) Cruz said he also intended to improve training. The incoming Philippine Army commander, MG Hermogenes Esperon, had orders strictly to enforce Cruz's directive to train twelve battalions annually. (Note: According to DAO, due to

their heavy operational tempo, some Philippine Army battalions have not undergone training in over 13 years. End note.) To win the counterinsurgency fight, Cruz said he wanted to realign the AFP's force structure to add 2,700 junior officers. "We need small unit leaders who can think," Cruz said. Officer Candidate School offered the quickest way to reduce the officer to troop ratio from 12:1 to 8:1; Cruz plans an additional 550 million pesos (\$9.8 million) in upgrades to the Camp O'Donnell officer training facility in Tarlac.

RESTRUCTURING INTELLIGENCE

17. (C) According to Cruz, the continued heightened terrorist threat mandated a restructuring of AFP's intelligence services. "We're afraid foreign elements are coming in to try to indoctrinate Filipinos to commit suicide bombings," Cruz said, adding, "we have enough people but not in the right place." Incoming AFP Chief of Staff LTG Generoso Senga, because of his intelligence background, would take a personal hand in developing a professional cadre of mid-level intelligence officers focused on combating terrorism and insurgency, Cruz explained.

MAKE PEACE WITH THE MILF; CRUSH THE NPA, ASG, AND JI

18. (C) Cruz said the GRP hoped an eventual peace agreement with the separatist Moro Islamic Liberation Front (MILF) would remove 10,000 MILF combatants from the fight, allowing the AFP to concentrate its expanding combat power against the CPP/NPA. Cruz indicated that the GRP's autonomy offer to the MILF might include the right to exploit natural -- including subsoil -- resources in a yet-to-be-defined "ancestral domain" area, a long-standing MILF demand. Faced with the AFP's improved capabilities, the CPP/NPA would collapse, allowing the GRP finally to eradicate the Abu Sayyaf Group and Jemaah Islamiyah threats, Cruz predicted.

19. (C) Increased USG engagement with Indonesia had improved the situation with JI, Cruz said, adding that the Philippines was closely cooperating with Indonesia and Malaysia on patrolling their porous common borders. Cruz noted Singaporean efforts to promote greater maritime cooperation in the Malacca Straits, commenting that if an effective mechanism developed there, it could serve as a template for the adjoining seas. Cruz expressed worry about the growing Muslim insurgency in southern Thailand, whose "viciousness" and intensity were so alien to the Thai character. Charge noted separatist feelings in Southern Thailand were based on long-standing historical grievances, acerbated by Islamist extremists.

PRAISE FOR US ASSISTANCE

10. (C) Cruz praised US counterterrorism assistance. US intelligence fusion had provided active leads in the hunt for JI and ASG terrorists. Security assistance training of the Light Reaction Companies (LRCs) by Joint United States Military Assistance Group Philippines (JUSMAG) had upgraded the AFP's ability to react quickly to terrorist threats. Cruz said he would also welcome US help in professionalizing the AFP's intelligence services.

COMMENT

11. (C) Cruz, as usual, was well prepared with facts and figures and a clear vision of where he wants to take the AFP. He has already achieved some success in reforming the budget and acquisition systems. His commitment to reform appears firm despite the political distractions he faces, as a key adviser of President Arroyo, from the incessant partisan bickering and turbulence. Fiscal constraints, a cash-strapped GRP budget, and rising fuel costs may nonetheless impact Cruz's ability to achieve all of his goals.

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